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INFO RUCNCLS/ALL SOUTH AND CENTRAL ASIA COLLECTIVE

RUCNCIS/CIS COLLECTIVE

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RUEHAK/AMEMBASSY ANKARA 4659

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C O N F I D E N T I A L SECTION 01 OF 03 ASHGABAT 000041

SIPDIS

STATE FOR SCA/CEN, EEB

PLEASE PASS TO USTDA DAN STEIN

ENERGY FOR EKIMOFF/THOMPSON

COMMERCE FOR HUEPER

E.O. 12958: DECL: 01/13/2019

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SUBJECT: TURKMENISTAN: USTDA MEETINGS WITH HYDROCARBON

SECTOR OFFICIALS

Classified By: Charge d'Affaires a.i. Richard Miles. Reasons 1.4 (B) and (D).

¶1. (C) SUMMARY: During meetings with the U.S. Trade Development Agency (TDA) Regional Director for Europe and Eurasia and Charge, Turkmenistan hydrocarbon sector officials agreed to consider further cooperation with TDA. Turkmengas will continue to develop onshore gas deposits itself, hiring service companies as needed. The State Hydrocarbon Agency's task is to develop offshore blocks and it expects to sign several development agreements in 2009. While potential for Turkmen cooperation with Azerbaijan regarding the Caspian was acknowledged, no concrete steps were mentioned. Concerning Turkmen cash sales to Gazprom, both sides were described as currently fulfilling their contractual obligations. According to the Turkmen officials, Turkmen gas prices in 2009 should be tied to European market prices. U.S. energy firms seeking high-level meetings in Turkmenistan need to channel such requests through the Foreign Ministry as required by Turkmenistan government protocol. END SUMMARY.

¶2. (C) On January 8, TDA Regional Director for Europe and Eurasia, Dan Stein, and the Charge met jointly with State Hydrocarbon Agency Director, Yagshygeldy Kakayev, and Turkmenas Chairman, Baymurak Khodjamukhamedov, to discuss prospects for future cooperation between TDA and their respective organizations. Stein mentioned past cooperation with the Turkmen government in the area of training and the preparation of feasibility studies such as a study for a trans-Caspian pipeline in the late 1990s. TDA could also provide consulting assistance in the negotiation of agreements with private companies or other countries. He emphasized that TDA bases its projects on the needs and wants of the recipient country.

PETROCHEMICAL STUDY FALLS UNDER MINISTRY'S PURVIEW

¶3. (C) Kakayev was familiar with previous TDA cooperation. He mentioned that officials from his agency had participated

in a TDA-organized oil and gas sector delegation to the United States in 2008. Concerning the proposed TDA feasibility study for the Turkmen petrochemical industry, Kakayev noted that the Ministry of Oil and Gas is responsible for the organization of production in the hydrocarbon sector, including decisions about the range of products and potential export routes and markets. He urged TDA to pursue cooperation with the Ministry of Oil and Gas. The State Hydrocarbon Agency is mainly engaged in the development of Turkmenistan's offshore blocks in the Caspian Sea, Kakayev pointed out.

#### TURKMENGAS WILL HIRE SERVICE COMPANIES AS NEEDED

¶4. (C) Turkmengas is responsible for gas production and is involved in many projects, said Khodjamukhamedov. Currently there are negotiations with "large-scale, huge companies." Some gas fields have already been identified and contracts are being drawn up. Legal, technical and financial consultants have been retained and activity is "proceeding normally." He specified that Turkmengas only hires companies to provide services. To develop their gas fields, Turkmenistan will need significant resources and they intend to use both their own means and to obtain financing, to which end they are working with banks and other consultants. Khodjamukhamedov said negotiations are underway this week for the construction of gas processing plants, mentioning the firms BASF and Lurgi by name. He added that, "for now, there are no big, unresolved issues that Turkmengas cannot resolve."

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#### AGREEMENTS ON CASPIAN BLOCKS CLOSE TO COMPLETE

¶5. (C) Concerning the lack of apparent progress on reaching agreements with foreign companies for offshore blocks, Kakayev said foreign interest has not fallen off. Negotiations for several proposed projects were close to completion and several contracts would be signed in 2009. When asked about prospects for joint Turkmen-Azeri development of the disputed Caspian area, Kakayev, following a long pause, commented that the joint Turkmen-Azeri energy conference in Baku was a good event with broad participation that allowed many good contacts. He noted that many Turkmen had studied at the Oil and Gas Institute in Baku and that there was grounds for potential cooperation inasmuch as the Azeris have long experience working in the Caspian. Kakayev did not share any details about the late November trilateral Turkmen-Turkish-Azeri summit, except to say that the delivery of Turkmen gas through Turkey was discussed and that Turkmenistan had reaffirmed its position that it would sell its gas at its border, expressing willingness to cooperate when the Turks would be ready to perform.

¶6. (C) Stein mentioned that an earlier TDA proposal to finance a study related to an offshore Turkmenistan-Azerbaijan interconnector gas pipeline was still available if the Turkmen government decided it was interested. Kakayev vigorously responded that it would not be possible to unite the two gas pipeline networks because of the high level of condensate in the Turkmen gas. The gas would first have to be sent to an onshore refinery -- a plant is currently under construction -- and then the resulting product could be marketed. However, Kakayev said the Turkmen are willing to study every development option, as their primary task is to obtain maximum profits from their hydrocarbon deposits.

#### EXCHANGE ABOUT RUSSIA-UKRAINE GAS DISPUTE

¶7. (C) Khodjamukhamedov said he was unable to give an estimation of the current Russia-Ukraine situation, adding that he is only aware of information reported in the media, from which they must draw their own conclusions. He did not think the current shut-off would last a long time because of the importance of energy resources for the countries

involved. He offered that Turkmenistan had a long-term contract with Gazprom, that there were no problems with the current contract and that both sides were fulfilling their obligations. During 2009, all buyers of Turkmen gas would make purchases based on a formula that reflected market prices, as President Berdimuhamedov had stated. Asked by Khodjamukhamedov for his opinion, Stein suggested that for Europe, the situation emphasized the need for alternative sources of gas and Europe's current vulnerabilities, especially some smaller countries. For gas suppliers, the dispute demonstrates the need for more than one market and more than one route to market. If the dispute would extend long-term, it would affect Turkmenistan, regardless of Russia's current assurances.

#### WANT TO SEE U.S. UPSTREAM INVESTMENT IN TURKMENISTAN

**¶8. (C)** Stein continued that the United States government would like to see more upstream investment in Turkmenistan by U.S. energy companies. The Charge commented on the difficulty arranging meetings for top level U.S. oil company executives with President Berdimuhamedov, despite repeated requests, and urged Kakayev and Khodjamukhamedov to do what they could to facilitate favorable consideration of such requests in the future. Kakayev replied that the State

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Hydrocarbon Agency works on the specific task of developing Turkmenistan's offshore blocks. Currently the Agency is negotiating with ConocoPhillips, the only U.S. company that has expressed interest. He suggested that high-level meetings should be arranged through diplomatic channels at the Foreign Ministry. Khodjamukhamedov added that Turkmengas meets with foreign companies, citing Chevron, BP and Shell, and is ready to work with them. But Turkmengas is only interested in working with foreign companies on a service basis. These companies want to enter production sharing agreements ("PSA") in order to book reserves, but only the State Hydrocarbon Agency can work with companies on a PSA basis. On the question of high-level meetings, Khodjamukhamedov emphatically said arranging such meetings does not fall within their competence and that according to Turkmenistan protocol, such meetings must be arranged through the Foreign Ministry.

#### DISSCUSSED TDA PROPOSAL AT OIL AND GAS MINISTRY

**¶9. (C)** In a separate meeting with Deputy Minister of Oil and Gas Bayram Nadirov, Stein described the proposed petrochemical sector feasibility study grant that would provide the Ministry with recommendations for the further development of Turkmenistan's petrochemicals industry. He provided a copy of the latest version of the proposed grant agreement. Due to changes in the Ministry's leadership, no progress has been made on finalizing the grant agreement since August. Stein also handed over a Department of Energy (DOE) proposal to conduct a seminar in Ashgabat on gas pipeline maintenance and management. Finally, he asked about the Ministry's interest in following up on the TDA training program for oil and gas specialists that took place in 2008. Nadirov expressed appreciation for TDA's cooperation with the Ministry. He said the draft grant agreement is at the Ministry and is being reviewed. He added that he would pass the most recent draft to the Minister and inform the Embassy about the outcome.

**¶10. (C)** Nadirov also mentioned that the GOTX plans to host an international conference on pipeline security in April as a follow-up to the recently adopted UN resolution on the same subject. A DOE seminar would be useful for Turkmen specialists. He suggested that DOE submit a formal proposal through the Turkmenistan Foreign Ministry, saying that they would examine the proposal and answer. Nadirov commented that President Berdimuhamedov pays attention to training of cadres with the aim of raising specialists' level of knowledge in accordance with international standards.

¶11. (C) COMMENT: Due to changes in leadership and onerous bureaucracy, the Turkmen were not prepared to finalize the petrochemical sector grant agreement. On other subjects, Turkmen officials continued to assert their now familiar positions, that they will manage the development of their onshore resources themselves and hire expertise on a contract basis as needed, and that offshore development is open to foreign partners. They showed no hint of concern about their reliance on gas sales to Gazprom, despite potential negative consequences if the Russia-Ukraine standoff is not resolved soon. The comments and attitudes of the officials suggested that, when it comes to developing their gas resources, they still consider themselves to be sitting in the catbird seat, and the global economic crisis, falling energy prices, delay in completion of the China pipeline, and shutdown of gas deliveries to Ukraine have not outwardly shaken this sense of advantage. END COMMENT.

MILES